

Section F. Financial Alternatives and Supplements to a Reverse Mortgage

Overview

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1. Other Living/Ownership Arrangements

| | |
|--|---|
| Introduction | <p>This topic contains information on other living/ownership arrangements that might be alternatives to a reverse mortgage, including</p> <ul style="list-style-type: none">• questions to ask a client about his/her home/living arrangements to determine if a reverse mortgage is appropriate, and• discussing alternative living arrangements with a client. |
| Change Date | March 18, 2011 |
| PROTCL 5.F.1.a Questions to Ask a Client About His/Her Home/Living Arrangements to Determine If a Reverse Mortgage Is Appropriate | <p>Listed below are five questions that counselors must ask their clients, to assess how well a reverse mortgage meets the clients' needs. These questions are separate from the client's review of understanding.</p> <ul style="list-style-type: none">• Is downsizing a better option? Examining other housing options can help your clients weigh the costs and benefits of staying in their homes versus moving.• How long do you plan to stay in your home? A reverse mortgage may not make sense, for example, for someone planning to move two years in the future.• What are your financial needs and how would a reverse mortgage help you?• How much could you get from a reverse mortgage? Will a reverse mortgage be enough to cover your financial needs?• When do you need the loan? A client may be eligible for more money under a reverse mortgage as he/she gets older and the value of his/her home increases. <p>Reference: For further details and resources regarding these options, see HECM Protocol 7.B.9.</p> |

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1. Other Living/Ownership Arrangements, Continued

PROTCL
5.F.1.b
Discussing
Alternative
Living
Arrangements
With a Client

For many clients, selling their homes and moving into a less expensive residence or one that better suits their physical needs may be the most appropriate option.

Clients must consider the costs of the real estate transaction, which usually include real estate broker fees and moving expenses, and may include other costs as well. The process of investigating other living arrangements helps clients determine whether to purchase a different home or remain where they are, and ultimately, evaluate the advantages of a reverse mortgage.

Counselors must discuss the alternative living/ownership arrangements listed in the table below.

| Living/Ownership Arrangement | Description/Points for Discussion |
|------------------------------|--|
| Retirement communities | Retirement communities offer a number of services such as meals, housekeeping services, transportation and activities. Residents may retain their independence while eliminating most of the burdensome responsibilities of homeownership. |
| Home-sharing arrangements | Clients may be able to find another senior to share a home, either through informal networking or, in some communities, through an agency that screens and matches potential home-sharers. |
| Selling | <p>Clients may consider selling their homes because the</p> <ul style="list-style-type: none"> • home is too large and the client wants to downsize • upkeep of the home is too burdensome or costly • house needs repairs or upgrades that the client cannot afford, and • client believes he/she will save money by selling and renting. |

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1. Other Living/Ownership Arrangements, Continued

PROTCL 5.F.1.b Discussing Alternative Living Arrangements With a Client (continued)

| Living/Ownership Arrangement | Description/Points for Discussion |
|---|---|
| Renting: Subsidized or affordable senior apartments | <p>Subsidized housing is generally available to people 62 years or older who are below a certain income level. Both state and Federal programs offer this type of housing, which provides funding to cover the difference between how much the senior is able to pay and the actual rent.</p> <p>Seniors who qualify for subsidized housing are less subject to dramatic increases in rent over time as long as their income remains stable. The stabilization of housing costs is often attractive to seniors living in homes with low value or homes subject to large debt.</p> <p><i>Note:</i> Seniors must be aware that the proceeds from selling their home or any other large increase in income may affect their ability to qualify for subsidized housing.</p> |
| Renting: Non-subsidized rentals | <p>There are many communities that offer non-subsidized housing for seniors 55 years or older. When living in non-subsidized rental housing, residents have more flexibility with the amount of assets they maintain, as their assets do not affect their eligibility to live in the community.</p> <p>However, rents may increase over time, possibly on an annual basis. Seniors must plan for potential increases when considering long-term non-subsidized rental housing.</p> |

2. Other Financial Alternatives to a Reverse Mortgage

Introduction This topic contains information on other financial alternatives to a reverse mortgage including

- home equity loans
 - Individual Retirement Accounts (IRAs), and
 - the refinance of existing forward mortgage.
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PROTCL 5.F.2.a Home Equity Loans as an Alternative to a Reverse Mortgage A home equity loan uses the equity in the borrower's home as collateral. These loans are sometimes useful to help pay for unexpected home repairs and medical bills.

A home equity loan

- creates a junior lien against the borrower's home, and
- must be repaid in monthly payments of principal and interest, which become due as soon as the loan is closed.

Borrower Qualifying

Borrowers must have sufficient income and good credit to qualify for a home equity loan.

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2. Other Financial Alternatives to a Reverse Mortgage,

Continued

**PROTCL
5.F.2.b
Individual
Retirement
Accounts as an
Alternative to a
HECM**

Many clients may have Individual Retirement Accounts (IRA) that may serve as sources for extra income. There are several types of IRAs including

- traditional IRAs
- Roth IRAs
- SIMPLE IRAs, and
- SEP IRAs.

Combined with potential tax savings at the time of contribution, IRAs may be valuable tax management tools for individuals. Depending on income at the time of retirement, an individual may be able to fit into a lower tax bracket with tax-deductible contributions during his/her working years, while still enjoying a lower tax bracket during retirement.

Seniors who have invested in IRAs should contact their financial institutions to learn more about their ability to draw on these accounts.

**PROTCL
5.F.2.c
Refinance of
Existing
Forward
Mortgage as an
Alternative to a
HECM**

If a client has an existing forward mortgage, he/she may be able to refinance the mortgage to obtain a loan with better terms, including a possible lower interest rate.

In some cases, the client may be able to pay off the existing mortgage and obtain funds by borrowing against the additional equity in the property.

Borrower Qualifying

Borrowers must have sufficient income and good credit to qualify for a refinancing mortgage.

3. Community Services and Programs

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**PROTCL
5.F.3.a
Services and
Programs
Offered at the
Community
Level**

The table below lists a wide variety of additional services and programs that may be offered by local public agencies or nonprofit groups at the community level.

| Type of Service/Organization | Description of Assistance |
|---|---|
| Home repair and adaptation services | Subsidized funds for minor home repairs, to build wheelchair ramps, and to install safety features for older adults |
| In-home care, homemaker, and chore services | Public assistance available for those who need help with tasks like housekeeping, grocery shopping, or personal care |
| Adult day care | Group care programs may serve as an alternative to expensive one-on-one home care for adults who need constant supervision |
| Transportation | Assistance via public programs or volunteer groups |
| Volunteer coordination programs | Assistance with yard work, house painting, roof repairs, grocery shopping, transportation, social contact, and other needs |
| Corporate programs | Corporate eldercare programs may provide information and referrals for their employees, as well as more tangible support such as using a corporate van to deliver meals |
| Local hospitals | Wellness events or health fairs that provide free blood pressure checks and materials on nutrition and fitness |
| Churches | Support of "friendly visiting" of older people who are homebound by another member of the church |
| Civic groups | Charitable events to serve older adults |

4. Eligibility for Public Benefits and Services

Introduction This topic contains information on client eligibility for public benefits and services, including

- a listing of public benefits available to clients
- services provided through the Aging Network, and
- the impact of a reverse mortgage on eligibility for public benefits.

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PROTCL 5.F.4.a Listing of Public Benefits Available to Clients Many low- to moderate-income homeowners are not aware that they are eligible to receive benefits from major public programs, as outlined in the table below.

| Type of Public Benefit Program | Description |
|--|---|
| Supplemental Security Income (SSI) | SSI provides monthly cash payments to qualifying low-income persons who are 65 and older. |
| Medicaid | Medicaid is a health insurance program for people with low incomes, paid for by a combination of Federal and state dollars. <i>Note:</i> Medicaid eligibility guidelines vary from state to state. |
| Medicare Prescription Drug Program | Medicare Prescription Drug Program (Medicare Part D), which began in 2006, is an optional add-on to the regular Medicare health insurance program. In most cases, seniors can save 50% or more on their drug costs (compared to full retail) by signing up for this program. |
| Local Tax Deferral or Exemption Programs | Many communities offer local tax deferral programs for seniors who cannot make the payments. These programs are usually designed to allow senior citizens to defer payment of part or all of the property taxes on their homes. |

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4. Eligibility for Public Benefits and Services, Continued

(continued)

| Type of Public Benefit Program | Description |
|--------------------------------|--|
| The Aging Network | <p>The Aging Network is the system of public and private nonprofit agencies and organizations responsible for implementing the Older Americans Act (OAA). Enacted in 1965, the OAA sets forth objectives for improving and maintaining quality of life for older Americans.</p> <p>Note: HECM counselors and agencies are encouraged to reach out to and work with the Aging Network in their local community, to provide clients with the appropriate level of service to meet their needs.</p> <p>Reference: For more information on the Aging Network, see HECM Protocol 5.F.4.b.</p> |
| State Units on Aging | <p>State Units on Aging (SUAs) are the designated state agencies serving the elderly. They coordinate related state activities and administer federal funds at the state level.</p> <p>Reference: For more information, see www.nasua.org.</p> |
| Area Agencies on Aging | <p>Area Agencies on Aging (AAAs) coordinate the delivery of a variety of services to meet the needs of the older population, including</p> <ul style="list-style-type: none"> • information and referral • outreach • transportation • in-home care • legal and protective services • counseling • socialization • recreation, and • education. |

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4. Eligibility for Public Benefits and Services, Continued

PROTCL
5.F.4.b
Services
Provided
Through the
Aging Network

Federal funds support the provision of services in local communities through the Aging Network. The three primary programs/types of services listed in the table below benefit the most from Federal funding.

| Type of Program/Service | Description of Service/Assistance |
|--------------------------------|---|
| Information and Referral (I&R) | <p>These programs exist to help older adults and their caregivers find specific information on programs that are available to the elderly.</p> <p>Many I & R programs also publish a directory of resources or maintain a website with information about community resources for the elderly.</p> |
| Senior Centers | <p>Many senior centers offer a variety of</p> <ul style="list-style-type: none"> • exercise programs • health screenings • socialization and recreation opportunities • counseling services • hot meals, and • other activities. |
| Nutrition Services | <p>A significant portion of funds under the Older Americans Act is targeted to provide hot noontime meals in senior centers, churches, and other convenient locations.</p> <p><i>Note:</i> Home-delivered meals may also be available.</p> |

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4. Eligibility for Public Benefits and Services, Continued

PROTCL
5.F.4.c
Impact of a
Reverse
Mortgage on
Eligibility for
Public Benefits

A reverse mortgage does not affect a borrower's basic Social Security and/or Medicare benefits because eligibility for these programs is not based on income and assets.

A reverse mortgage *may*, however, affect eligibility for benefits from needs-based government assistance programs, such as

- Supplemental Security Income
- Medicaid, and
- food stamps.

Generally, these programs do not treat loan advances as income. However, if the borrower retains loan advances in a readily available form (that is, a bank account) past the end of the month in which he/she borrower received them, the proceeds count as a "liquid resource" and may disqualify the borrower from receiving need-based government benefits.

Reference: For the current limits for allowable liquid resources in the Supplemental Security program, go to www.ssa.gov. If the borrower's resources exceed these limits, that benefit will be terminated.
